Management Control Process

for

Corps of Engineers

February 8, 2007

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Program Manager
Managers' Internal Control Program

Management Control Process

- Background
- Organizational Structure
- Risk Assessments
- Management Control Plan
- Management Control Evaluations
- Annual Statement of Assurance

Background

Statutory Authority

- The Federal Managers' Financial Integrity Act (Integrity Act) requires the head of each executive agency to:
  - Establish management controls to provide reasonable assurance that: obligations and cost are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, or unauthorized use, or misappropriation; revenues and expenditures are properly recorded and accounted for; and programs are efficiently and effectively carried out according to applicable law and management policy.
  - Report annually to the President and Congress on whether these management controls comply with requirements of the Integrity Act.

Background

Army Management Control Policy

- All commanders and managers have an inherent responsibility to establish and maintain effective management controls, assess areas of risk, identify and correct weaknesses in those controls and keep their superiors informed.
- Heads of reporting organizations and assessable unit managers will give high priority to the prompt correction of material weaknesses and to the effective implementation of management controls that –
  - Are identified as key management controls by HQDA functional proponents.
  - Pertain to DOD high risk areas.
  - Pertain to other high risk areas identified by DOD or Army leadership.
  - Pertain to identified areas of vulnerability.

Background

Internal Control References

- DoD Website: http://www.dod.mil/comptroller/fmfia/index.html
- Federal Managers' Financial Integrity Act of 1982 (PL 97-255)
- OMB Circular A-123, Management's Responsibility for Internal Control, August 5, 2005 (Recently revised)
- DoD Instruction 5010.40, Managers' Internal Control Program Procedures, January 4, 2006
- Guidelines for Preparation of the Federal Managers' Financial Integrity Act Annual Assurance Statement – November 14,2006
- GAO Standards for Internal Control in the Federal Government, November 1999
- http://www.gao.gov gao/aimd-21.3.1 – publications

Background

References & Training Sites

- Annual Statement of Assurance
- https://freddie.forscom.army.mil/mgtcontrols
- http://www.asafm.army.mil/fo/fod/mc/mc.asp
- Army Reserve Readiness Training Center – ARRTC

  Management Control Training – Becoming a Management Control Administrator - 9 Modules (certificates)

  https://arrtc.mccoy.army.mil

Background

Purpose AR 11-2

This regulation prescribes policies and responsibilities for the Army's management control process. The provision of this regulation applies to all Army organizations and programs. This regulation restructures the Army's management control process to reinforce the accountability of Army commanders and managers for establishing and maintaining effective management controls and to provide them with greater flexibility in their evaluation of these controls.

Background

KEY MANAGEMENT CONTROLS

ARE THOSE CONTROLS THAT ARE ABSOLUTELY ESSENTIAL TO ENSURING THAT CRITICAL PROCESSES OPERATE AS INTENDED AND THAT RESOURCES ARE SAFEGUARDED FROM FRAUD, WASTE, AND MISUSE.

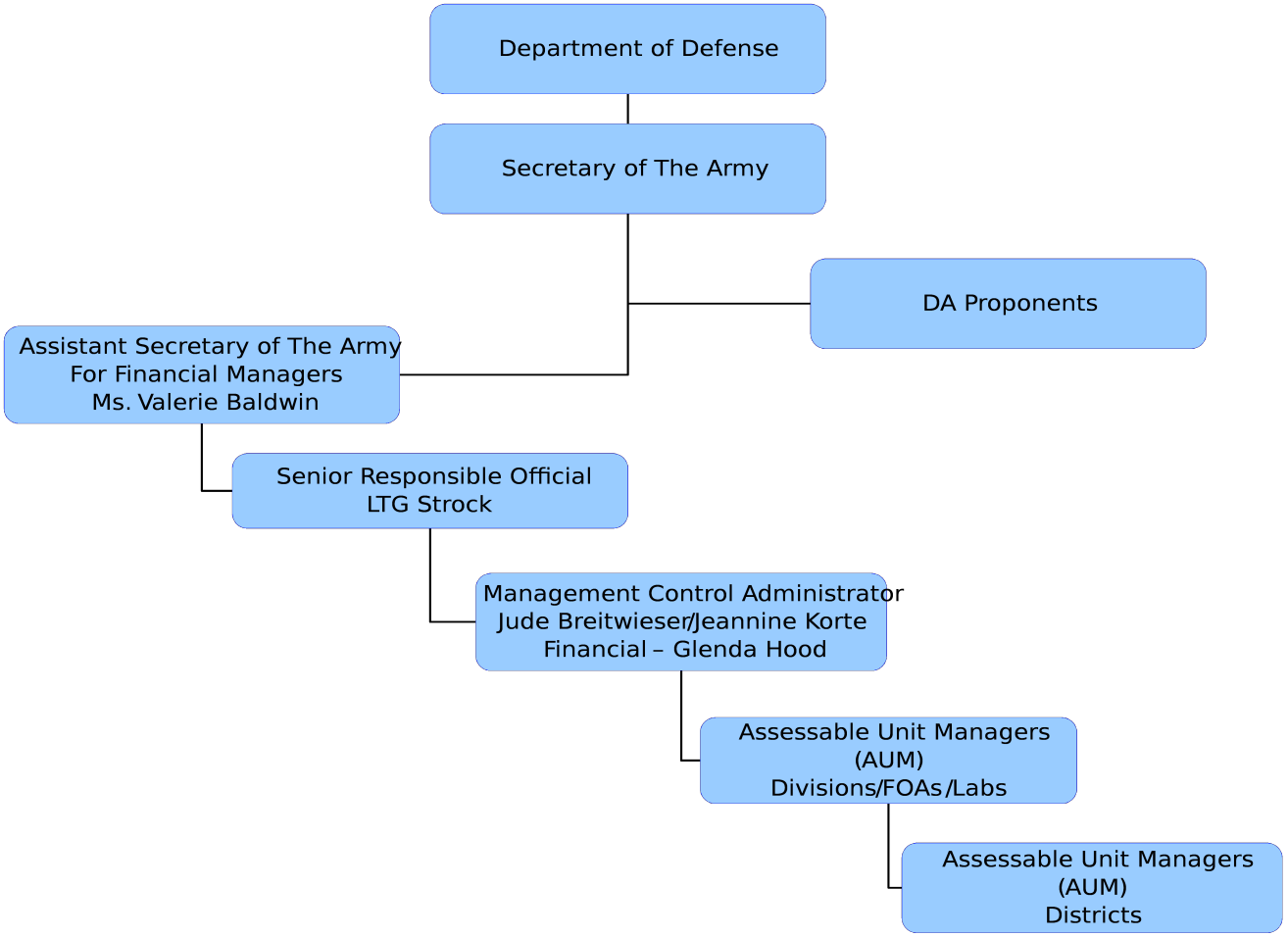
Background

Key Program Elements

- Manager Involvement
- Critical Internal Controls
- Management Control Administrators
- Management Control Plans
- Management Control Evaluations
- Assessable Unit Managers
- Reporting Material Weakness
- Annual Assurance Statement

Organizational Structure

Management Control Hierarchy



Organizational Structure

Reporting Organizations

HQDA staff agencies, Army Commands, Army Service Component Commands, and Direct Reporting Units are the primary reporting organizations in the Army management control process. The heads of these organizations are responsible for carrying out the Army management control process within their organizations and will –

- Provide leadership and support needed to ensure that management controls are in place and operating effectively.
- Designate a senior responsible official to ensure that the management controls process is effectively implemented within their own organization.

Organizational Structure

Reporting Organizations *(con't.)*

- Designate the assessable units within the organizations.
- Sign and submit an annual statement of assurance that accurately describes the status of management controls within their own organizations, to include any material weaknesses an plans for corrective action.
- Support DFAS-IN in its preparation of the annual Army Accounting System Report by ensuring that their accounting system managers provide accurate and timely System Manager/User Reviews.

Organizational Structure

Senior Responsible Officials

- Has overall responsibility for ensuring the implementation of an effective management process within their organizations. They will:
- Designate a management control administrator to administer the management control process within the reporting organization and to serve as a focal point for all management control matters.
- Oversee the preparation of an annual statement that accurately describes the status of management controls in the reporting organization and fully disclose any material weaknesses in management controls, along with plans for corrections.

Organizational Structure

Assessable Unit Managers

Designated by the head of the reporting organization, commanders/managers of assessable units will:

- Provide leadership and support needed to ensure that management controls are in place and operating effectively.
- Ensure that–
  - Managers are trained and understand their management control responsibilities.
  - A management control plan (MCP) is established and maintained to describe how key management controls in the assessable unit will be evaluated over a five year period.
  - Management control evaluations are conducted according to the MCP.
  - Required documentation on each completed management control evaluation is retained.
  - Certify the results of required management control evaluations.
  - Report through the chain of command any material weaknesses in management control, establish and implement plans to correct those material weaknesses, and track progress in executing those plans until the material weakness is corrected.

Organizational Structure

Management Control Administrators

Administer the Manager's Internal Control Process (MICP) within the Reporting Organization. They:

- Maintain MICP
- Identify the need and conduct training
- Coordinate the preparation of the organizations Annual Assurance Statement
- Ensure Material Weakness are tracked

Risk Assessment

- Assessment made by management
  - Identify mission objectives
  - Identify risks (qualitative and quantitative)

- Example

  - **Risk** = Unauthorized access

  - **Control** = Electronic lock on the door

  - **Control Deficiency** = unauthorized entry occurs
    Was entry due to a design or operation deficiency?

  - **Design Deficiency** = Weak Design of lock

  - **Operation Deficiency** = Lock Design good but not used

Management Control Plan

- The goal is to provide reasonable assurance that Army programs are being executed efficiently and effectively.
- A Management Control Plan (MCP) is a written plan for conducting management control evaluations within the assessable unit over a five-year period.
- The MCP should be tied to a risk assessment process. (Internal Review can assist.)
- Controls for high-risk areas (key controls) should be evaluated more often than controls for less risky areas.

Management Control Plan

- Must be developed by management.
- Need not be lengthy and any format may be used.
- Must cover the key management controls identified by HQDA functional proponents (available on the ASA (FM&C) web site- http://www.asafm.army.mil/fo/fod/mc/mc.asp).
- Must clearly indicate:
  - Which areas will be evaluated.
  - Who will conduct each evaluation.
  - When each evaluation will occur.
- Must be kept current. It must be updated annually.
- It is helpful to include the governing regulation relating to each evaluation area.

Management Control Plan

DRAFT 2006-2010 MANAGEMENT CONTROL PLAN
for
[redacted]
DA-WIDE MANDATED EVALUATIONS

as of 17 January, 2006
page 1 of 2

		EVALUATION			FY SCHEDULED USE				
FUNCTION	**POLICY (AR)**	**SUGGESTED METHOD**	**PUBLISHED IN**	**RESPONSIBLE OFFICES**	**06**	**07**	**08**	**09**	**10**
DA-WIDE MANDATED									
Army Travel Card Program (Bank of America)	DOD FMR,VOL9,3	Checklist	DOD FMR, Vol 9-3	OGC Admin & (4)	X	X	X	X	X
Budget Execution	AR 37-49	Checklist	DFAS IN 37-1	OGC Admin	X	X	X	X	X
Information Security-Containers/Physical	AR 380-5	*Other	Memorandum	OGC Admin & (6)	X	X	X	X	X
Information System Management (LAN)	AR 5-1/380-19	Accred.Plan/SOP	Memorandum	OGC Admin & (1)	X	X	X	X	X
Leaves and Passes	AR 600-8-10	*Other	Internal –Memo	OGC Admin & (3)	X	X	X	X	X
Personnel Acct and Strength Report	AR 600-8-6	*Other	AR-600-8-6	OGC, (3), & (4)	X	X	X	X	X
Purchase Card /Billing Official Account	APC Handbook	Checklist	APC Handbook	OGC Admin & (7)	X	X	X	X	X
Physical Security Inspection	AR 190-13	Checklist	AR-190-13	OGC Admin & (6)	X	X	X	X	X
Retail Supply Operations – Property Book	AR 710-2	Checklist/SOP	DA Cir 11-87-4	OGC Admin & (2)	X	X	X	X	X

Management Control Evaluations

- Evaluations must be conducted in accordance with the MCP.
- Assessable Units are permitted to supplement their MCP with additional evaluations that address the unique needs of the unit.
- Check with your Internal Review to assist you in determining risk.

Management Control Evaluations

Evaluation Process

- Choose an evaluation method:
  - Checklists prescribed by the governing AR.
  - Alternative methods using existing management review processes (audits, reviews, inspections, etc.).
- Determine the scope of the evaluation (number of records, timeframe, etc.).
- Determine the testing method:
  - Observation.
  - Interview.
  - Documentation review.
  - Simulation.

Management Control Evaluations

- Evaluations must be documented on DA Form 11-2-R.
- At a minimum, documentation of each evaluation must include the following:
  - Which functional proponent conducted the evaluation.
  - Which methods were used to conduct the evaluation.
  - What management control deficiencies were detected.
  - Which corrective actions will be taken.
- Only the Assessable Unit Manager may certify the DA Form 11-2-R.

Management Control Evaluations

MANAGEMENT CONTROL EVALUATION CERTIFICATION STATEMENT

For use of this form, see AR 11-2; the proponent agency is ASA(FM).

1. REGULATION NUMBER

2. DATE OF REGULATION

3. ASSESSABLE UNIT

4. FUNCTION

5. METHOD OF EVALUATION *(Check one)*

a. CHECKLIST

b. ALTERNATIVE METHOD *(Indicate method)*

APPENDIX *(Enter appropriate letter)*

6. EVALUATION CONDUCTED BY

a. NAME *(Last, First, MI)*

b. DATE OF EVALUATION

7. REMARKS *(Continue on reverse or use additional sheets of plain paper)*

8. CERTIFICATION

I certify that the key management controls in this function have been evaluated in accordance with provisions of AR 11-2, Management Control. I also certify that corrective action has been initiated to resolve any deficiencies detected. These deficiencies and corrective actions (if any) are described above or in attached documentation. This certification statement and any supporting documentation will be retained on file subject to audit/inspection until superseded by a subsequent management control evaluation.

a. ASSESSABLE UNIT MANAGER

(1) TYPED NAME AND TITLE

b. DATE CERTIFIED

(2) SIGNATURE

DA FORM 11-2-R, JUL 94 EDITION OF JAN 94 IS OBSOLETE.

Statement of Assurance

- Is a requirement of Federal Managers' Financial Integrity (FMFIA) Act of 1982.
- Provides an objective assessment of internal controls.
- Is supported by annual feeder statements received from Commanders of Army Commands, Army Service Component Commands, and Direct Reporting Units and HQDA Principals.
- Supports the Secretary of Defense's statement to the President and Congress.
- These annual statements are personal certifications on the effectiveness of internal controls within their respective organizations'.

Statement of Assurance

Important Dates

Apr 9	Statements from Regional HQ, FOA, Staff Principals due to HQ, USACE, CERM-P, Jude Breitweiser
May 18	Statements from Army Commands, Army Service Component Commands and Direct Reporting Units due to OASA (FM&C).
June 1	Statements from Headquarters Principals due to OASA (FM&C).
August 24	Final signed Army statement delivered to the Secretary of Defense.

Statement of Assurance

USACE Statement consists of:

- A Cover memo.
- Tab A – how the USACE's assessment was conducted.
- Tab B – the material weaknesses being reported.

The USACE's statement is supported by:

- Feeder statements from Regional HQ, FOA, Staff Principals due to HQ, USACE, CERM-P.

Statement of Assurance

Cover Memorandum

- Signature - USACE Commander.
- organization or principal deputy.
- Type of Statement of Assurance
  - Unqualified (reasonable assurance)
  - Qualified (reasonable assurance except for)
  - No reasonable assurance

Statement of Assurance

Unqualified

I am able to provide an unqualified statement of reasonable assurance (no material weaknesses being reported) that the (name of Activity) internal controls meet the objectives of FMFIA overall programs, administrative, and operations.

This statement must be included. *TAB A provides additional information on how the (name of Activity) conducted the assessment of internal controls for the FMFIA overall process, which was conducted according to OMB Circular A-123, Management's Responsibility for Internal Controls. In addition, TAB A provides a summary of the significant accomplishments and actions taken to improve Activity internal controls during the past year.*

Statement of Assurance

Qualified

I am able to provide a qualified statement of reasonable assurance (one or more material weaknesses being reported) that internal controls meet the objective of FMFIA overall programs, administrative and operations with exception of (number) material weakness(es) described in TAB B. These material weaknesses were found in the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of the date of this memorandum. Other than the material weaknesses noted in TAB B the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls.

Statement of Assurance

Qualified *(con't.)*

This statement must be included. *TAB A provides additional information on how the (name of Activity) conducted the assessment of internal controls for the FMFIA overall process, which was conducted according to OMB Circular A-123, Management's Responsibility for Internal Controls. In addition, TAB A provides a summary of the significant accomplishments and actions taken to improve Activity internal controls during the past year.*

Statement of Assurance

Qualified *(con't.)*

Activity's statement will include the following paragraph if the Activity identified material weaknesses, either in the current fiscal year or past fiscal years:

The (Activity) FMFIA overall evaluation did identify material weaknesses. TAB B-1 is a list of weaknesses that still require corrective action and those corrected during the period. TAB B-2 is an individual narrative for each uncorrected material weakness listed in TAB B-1. (Include the previous two sentences if your Activity has uncorrected material weaknesses.) TAB B-3 is an individual narrative for each material weakness corrected during the period. (Include the previous sentence if your Activity corrected any material weaknesses during the past fiscal year.)

Statement of Assurance

No Reasonable Assurance

I can provide no assurance (no processes in place to assess the internal controls or pervasive material weaknesses that cannot be assessed) that the (name of Activity) internal controls meet the objectives of FMFIA overall programs, administrative, and operations.

Statement of Assurance

Tab A

- Objective of assessment; how assessment of management controls was conducted.
- Reasonable Assurance-management judgment that recognizes there are acceptable levels
  - Tab A1 - Basis for Reasonable Assurance
  - Tab A2 - Other Information
  - Tab A3 - Management Control Program and Related Accomplishments

Statement of Assurance

Tab A-1
Basis of Reasonable Assurance

- Establishment of sound policies and specific required actions in regulations and other directives.
- Prevention and detection measures, such as internal or external audits, inspections, investigations and quality control reviews.
- General knowledge of command operations derived from weekly staff meetings, status reports, periodic review and analysis sessions and other forms of command oversight.

Statement of Assurance

Tab A-1
Basis for Reasonable Assurance

- Various functional management reviews, such as: program evaluations (e.g. computer security reviews) and system reviews (e.g. financial system reviews).
- Actions taken to mitigate or eliminate risk as part of a command risk management program.
- Annual performance plans and reports.
- Management control evaluations conducted in accordance with the organizations Management Control Plan.

Statement of Assurance

Tab A-1
Basis for Reasonable Assurance

Be Specific; Provide

- Name – Policies, Procedures Reviews and/or Inspections.
- Dates – Date review completed; period of review, and frequency – monthly, quarterly or semi-annually.
- Scope – total number of MCAs, AUMs; number trained; and reviews required and/or completed.
- Results – Describe what happened, conclusions reached and corrective actions needed as result of the review.

Statement of Assurance

Tab A-2
Other Information Required

Leadership Emphasis. Summarizes leadership efforts made in support of your management control process.

- Staff meetings – Grade level of attendees, frequency of meetings, brief description of discussion related to management controls, taskers issued and followup actions that resulted.
- Guidance - Memoranda (Purpose, date and attachments) and/or video presentations (preparation date, individual presented and brief description of presentation).
- Senior Leadership Involvement – Attend command inspection outbriefs for all brigade, battallion, and separate companies. (Describe an outbrief and include number of inspections).

Statement of Assurance

Tab A-2
Other Information Required

Training. Summarizes management control training conducted.

- Source – in-house by whom (MCA) or video conferences, contractor provided or attend schools.
- Scope – total number of MCAs and (Assessable Unit Managers) AUM; total number trained – MCAs and AUMs

Statement of Assurance

Tab A-2
Other Information Required

- Execution. Summarizes the most significant management control accomplishments within your organization.
  - Dissemination of information – methods used – email, fax, phone.
  - Type of information disseminated and to whom.
  - Management Control Awareness Program – disseminate “Check-it” posters and public service announcements to the widest audience possible to include functional areas.

Statement of Assurance

Tab A-3
MCP & Related Accomplishments

- Highlights the most significant management control and related accomplishments.
- Issues. Briefly describe the problem or challenge involved.
- Accomplishment. Indicate the control put in place. Describe the management control accomplishment in a few brief bullet statements.

Statement of Assurance

Tab A-3
MCP & Related Accomplishments

- **Issues –** Reconciliation of the Government Purchase Card Account.
- **Accomplishments**:
  - By standardizing processes, limiting the number of purchase cardholders, and using automated tools, the elapsed time from billing period closing to forwarding the account reconciliation to Defense Finance and Accounting Service has been reduced.
  - The reduction in process time enables DFAS to pay the U.S. Bank within established parameters, thus preventing payment of interest and allowing the Defense Commissary Agency to earn rebates.
  - Improvements in oversight capabilities has drastically reduced the agency's delinquency rates and increased rebate dollars.
  - FY 2005 1st Quarter rebates totaled $124,000 compared to FY 2004 1st Quarter of $ 65,000.

Statement of Assurance

Tab B

- Tab B-1, List of material weaknesses which provides separate listings for uncorrected and corrected material weaknesses.
- Tab B-2, Uncorrected material weaknesses includes separate descriptions of each uncorrected material weaknesses.
- Tab B-3, Corrected material weaknesses includes separate description of each corrected material weaknesses.

Statement of Assurance

Tab B – Material Weakness

- Commanders and managers are responsible for:
  - identifying and correcting management control deficiencies.
  - determining whether or not deficiencies should be reported as material weaknesses. They are, however, responsible for correcting the deficiencies – if there are any.
- A Material Weakness Must:
  - Identify a problem with management controls:
    - Controls are not in place
    - Controls are in place , but not used
    - Control are in place and used, but not adequate

Statement of Assurance

Tab B – Material Weakness (con't.)

- Warrant attention by the next level of command:
  - For their action
  - For their awareness

Sources for Material Weaknesses.

- Audits or inspection findings, criminal investigation results, management control evaluations, functional management review processes, and management's general knowledge of operational problems.
- Audit and inspection reports may recommend reporting specific problems as material weaknesses, but the determination to report a material weakness is ultimately a management judgment.

Statement of Assurance

Local ID #: _____

Title and Description of Material Weakness:

Functional Category:

Senior Official in Charge:

Pace of Corrective Action:

Year Identified:

Original Target Date:

Target Date in Last Year's Report:

Current Target Date:

Reason for Change in Date(s):

Validation Process:

Results Indicators:

Source(s) Identifying Weakness:

Major Milestones in Corrective Action:

A. Completed Milestones:

Date: Milestone:

B. Planned Milestones (Fiscal Year 2007):

Date: Milestone:

C. Planned Milestones (Beyond Fiscal Year 2007):

Date: Milestone:

OSD or HQDA Action Required:

Point of Contact:

Statement of Assurance

Material Weakness Format (*con't.*)

- Each material weaknesses should not exceed three pages in length.
  - Local ID #: Indicate your local identification number for the material weakness.
  - Title and Description of Material Weakness: Title should be short and concise; description should be written in non-technical terms for understandability by the public at large.
  - Functional Category: Cite one of the broad DoD functional categories: Listed in the Guidelines for Preparation of the FY 2007 Annual Statement of Assurance, dated November 14, 2006.
  - Senior Official in Charge: Identify the name and title of the senior official in charge of ensuring this weakness is resolved according to targeted milestone projections.

Statement of Assurance

Material Weakness Format (*con't.*)

- Pace of Corrective Action:
  - Year Identified: The FY the weakness was first reported.
  - Original Target Date: The FY for correction when first reported.
  - Target Date in Last Year's Report: The FY for correction in last year's report. If this is a new weakness, enter "N / A."
  - Current Target Date: The current FY for correction. New weakness, enter "N / A."
  - Validation Process: AAA must validate the effectiveness of corrective actions before a material weakness is closed.

Statement of Assurance_

Material Weakness Format (con't.)

- Each material weaknesses should not exceed three pages in length.
  - Results Indicator: Describe key results to be achieved from the corrective action and the overall impact of the correction on operations.
  - Source(s) Identifying Weakness: List the primary source(s) that identified the material weakness.
    - For audit/inspection reports, cite the report title, report number, and date.

Statement of Assurance

Material Weakness Format *(Con't.)*

- Major Milestones to Include Progress to Date: Indicate major milestones – primary corrective actions – taken or planned to correct the material weakness. Separate milestones into three categories:
  - Completed Milestones.
  - Planned Milestones for the next Fiscal Year (this year: for FY 2007).
  - Planned Milestones Beyond the next Fiscal Year (2008).
- List only major milestones in chronological order by milestone completion date with the terminal milestone listed last. Provide the quarter and fiscal year that each major milestone is projected to be accomplished.